

This is author version of article published as:

Patel, Amisha M. and Everett, James L. (2004) Making a difference in principal-agent relationships: The role of mass media as producer of trust . In *Proceedings Making a Difference: Australian and New Zealand Communication Association Conference (ANZCA 2004)*, pages pp. 1-13, Sydney, NSW.

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## MAKING A DIFFERENCE IN PRINCIPAL-AGENT RELATIONSHIPS:

The role of mass media as producer of trust

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### **Abstract**

*In relationships, trust promotes exchange (Bromiley & Cumming 1995, Tyler & Degoe 1996), reduces uncertainty (Mayer, Davis & Schoorman 1995), improves cooperation (Gilson 2003), and contributes to positive outcomes (Dahlstrom & Nygaard 1995, Gilbert 1998, McEvily, Perrone & Zaheer 2003). Following from recent research that describes the role of mass media as a 'guardian of trust' (Patel & Everett 2004), this paper explores mass media's role in providing information and producing trust in principal-agent relationships. The development of trust between agents and principals is beneficial for both parties (Chiles & McMackin 1996, as cited in Singh & Sirdeshmukh 2000), and acts as a control mechanism to reduce opportunism in these relationships (Beccerra & Gupta 1999, Creed & Miles 1996, Singh & Sirdeshmukh 2000).*

*Traditionally, trust is produced at interpersonal and impersonal levels (Bachmann 2003, Shapiro 1987, Zucker 1986). In this paper, we propose that, in a time of crisis when two agents are involved in an exchange and little information exists, mass media act as producer of trust. Building on Zucker's (1986) trust production concept, this study examines the empirical adequacy of the proposed model through a case study of mass mediated exchanges between the Australian Federal Minister for Health and the Australian Medical Association President to resolve a medical indemnity policy crisis in 2003. The case study documents the extent to which framing of mass mediated exchanges produces trust at process, characteristic, and institutional levels (Zucker 1986).*

**Paper stream:** Public and Political Communication

## **Introduction**

Trust plays an important role in exchange and principal-agent relationships (Gilbert 1998, Mishra 1996, Shapiro 1987, Singh & Sirdeshmukh 2000, Tyler & Degoey 1996). In these relationships, principals 'invest resources, authority, or responsibility in another [agent] to act on their behalf for some uncertain future return' (Shapiro 1987, p. 626). The development of trust in these relationships requires access to information, a task which is often limited in principal-agent relationships. This study proposes that mass media can operate as an impersonal source of trust in principal-agent relationships, thereby reducing risk and ensuring beneficial outcomes for both parties.

### ***Defining and producing trust***

Trust is an important part of social systems, exchange relationships, and everyday life because, among other benefits, it overcomes risk and acts as a social lubricant (Currall & Epstein 2003, Creed & Miles 1996, Powell 1996).

Broadly defined, trust is a belief in the absence of evidence that things will work out (Gambetta 1988). Specifically, Mayer, Davis and Schoorman (1995, p.712) define trust as the 'willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party'. These authors use the terms trustor and trustee to signify parties involved in an exchange relationship. In building on this definition, Rousseau, Sitkin, Burt and Camerer (1998, p.123) suggest trust is a 'psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another'. Although Rousseau et al's (1998) definition of trust is commonly accepted in the management literature, Mayer et al's (1995) reference to the absence of information is particularly significant to this study of trust production in principal-agent relationships.

Trust is a multi-dimensional construct that exists at personal, organisational, and societal levels amongst and amongst actors, organisations, and even countries (Fukuyama 1995). According to Meyerson, Weick and Kramer (1996, p. 184), different forms of trust vary in fragility and resilience, arguing that 'trust with close personal relationships is "thick" other forms are "thin" or easily withdrawn. These types of trust can be produced in three ways: process, characteristic, and institutional methods (Zucker 1986). The first two of Zucker's (1986) trust production methods rely on personal factors.

Process-based trust is defined by Zucker (1986, p. 60) as a 'record of prior exchange often obtained second hand or by imputation from outcomes of prior exchange'. This type of trust requires a significant amount of personal or organisational information, which is often not 'readily transferable to other persons or firms' (Zucker 1986, p. 62). Instead, people and organisations make investments in process-based trust by creating positive reputations or name brands. Following a similar line of argument, Lane (1998) argued that reputation and brands signal trustworthiness to exchange partners. Zucker's (1986) second method of trust production, characteristic-based

trust, is built around persons sharing similar social and cultural backgrounds. These similarities are used to begin and maintain exchange relationships.

Moving away from personal-based trust, Zucker's (1986, p. 63) final method of trust production, institutional-based trust, 'generalises beyond a given transaction and beyond specific sets of exchange partners'. Institutional-based trust is guaranteed by socially produced and legitimated structures (Zucker 1986). Institutional trust is a form of impersonal trust and exists when organisational actors cannot 'rely on commonality of personal characteristics or a past history or guaranteed future of exchange' (Lane 1998, p. 12). This trust underwrites interpersonal trust (Luhmann 1988), and is produced through mechanisms including personal or organisational membership and guarantees or contracts (Zucker 1986, Shapiro 1987).

Although not evolutionary, these three methods rely on different sources and information levels (Zucker 1986). Each method requires different time and monetary investments, yet individually and collectively contribute to social systems and progress.

### ***Trust in principal-agent relationships***

Producing and maintaining trust in principal-agent relationships ensures beneficial outcomes for both parties (Chiles & McMackin 1996, as cited in Singh & Sirdeshmukh 2000). Trust promotes exchange (Mishra 1996, Tyler & Degoey 1996), reduces uncertainty (Mayer et al 1995), improves cooperation (Gilson 2003), and contributes to positive outcomes (Dahlstrom & Nygaard 1995, Gilbert 1998, McEvily et al 2003).

In principal-agent relationships, 'principals—for whatever reason or state of mind—invest resources, authority, or responsibility in another [agent] to act on their behalf for some uncertain future return' (Shapiro 1987, p. 626). Traditional principal-agent relationships centre on exchange and incorporate hierarchy (Miller & Whitford 2002, Olson 2000), delegation (Beccerra & Gupta 1999, Castelfranchi & Falcone 1998, Schulze, Lubatkin, Dino & Buchholtz 2001), and contracts (Beccerra & Gupta 1999). Recent studies in this area have been undertaken in non-traditional settings including retail (Singh & Sirdeshmukh 2000); public administration (Miller & Whitford 2002); religious institutions (Zech 2001); family business (Schulze et al 2001); and simulated information environments (Tuomela & Hofmann 2003). Although these studies incorporate hierarchy and exchange in principal-agent relationships, they operate without formal contracts or payment incentives.

Regardless of the setting, in engaging agents, principals sacrifice personal involvement in and information related to the exchange. Therefore, while trust is critical, risk is also unavoidable. Principals risk not only such delegation of tasks to an agent (Beccerra & Gupta 1999, Miller & Whitford 2002, Shapiro 1987, Zech 2001), but the opportunity to observe the agent's efforts in completing tasks (Miller & Whitford 2002). According to Shapiro (1987, p. 627), principals rely on agents 'to bridge the barriers of direct physical access to information and property'. Singh and Sirdeshmukh (2000, p. 152) argue that market signals are 'sufficient devices to overcome information asymmetry and favour ongoing exchanges'. Although principals cannot measure the agent's efforts, they can make inferences based on the

outcome, which is a combination of both the agent's actions and external factors (Miller & Whitford 2002).

The task of information collection and dissemination is entrusted to agents, yet all parties rely on news media, research or advertising to build knowledge relevant to their relationship and exchange situation (Shapiro 1987). Such tools connect and provide information to each party at an impersonal level (Authors suppressed 2004). Given this use of news media, this study asks this research question.

*RQ: How does mass media reporting of agents produce trust in principal-agent relationships?*

According to Beccerra and Gupta (1999), agency theory is a useful vehicle to study and understand the production of trust. This usefulness is largely driven by the interplay between trust, information, and outcomes. Most principal-agent relationships begin with some form of trust. Lane (1998, p. 13) argued that 'trust overcomes the problem of time by bridging uncertainty in the face of imperfect information'. In new relationships, trusting parties develop expectations of each other based on cost and benefit calculations of certain courses of action (Lane 1998). The type of trust that develops is dependent on the availability of information, assuming the existence of some but not an ideal level of information (Bachmann 1998). Given this information gap, trust is based on institutionalised protection or the reputation of the parties (Child 1998). This trust is linked directly to Zucker's (1986) institutional trust production and contributes to the production of secondary information about process trust.

As principal-agent relationships evolve, Singh and Sirdeshmukh (2000) note that the relative influence of agency and trust mechanisms also change. Following a similar path of trust development in relationships, these authors suggest that in low information situations, agency mechanisms may dominate (Singh & Sirdeshmukh 2000). That is, in the stages of a relationship, principals make judgements using and guided by information based on non-personal cues. As the relationship progresses, and access to personal information increases, principals' reliance on agency devices is replaced by personal trust expectations (Singh & Sirdeshmukh 2000). Further, the process of building trust may be shortened if boundary-spanning persons in exchange relationship have regular personal contact (Bradach & Eccles 1989 as cited in Lane, 1998). This influence of time on trust in principal-agent relationships leads to this research question.

*RQ: Does trust production change over the course of news reporting of agents?*

## ***Methodology***

This study uses the framing of mass mediated exchanges as the basis for exploring mass media's role as a producer of trust. Framing is a technique used to structure disparate pieces of information into a meaningful structure. The concept of framing was first applied by Goffman (1974, as cited in Simon & Xenos 2000). Since that time, it has been applied to understand the role of journalists and analyse political communication. Framing is defined as 'a central organising idea or storyline that provides meaning to an unfolding strip of events, weaving a connection among them'

where 'the frame suggests what the controversy is about, the essence of the issue' (Gamson & Modigliani 1987, p. 143, as cited in Nelson & Kinder 1996).

The literature describes framing as having both content and structural impact. Nelson, Clawson and Oxley (1997, p. 1) argue that framing examines the 'effects of media content rather than mere coverage of a problem. From a structural perspective, Entman (1993, as cited in Nelson & Kinder 1996) defines framing as the 'process by which a communication source, such as a news organisation, defines and constructs a political issue or public controversy'. According to Simon and Xenos (2000), framing also involves association or linking concepts within the discourse. Nelson et al (1997) argue that frames reduce issue complexity by narrowing discussion to one or two central aspects.

Framing means and achieves more than organising content. According to Nelson et al (1997, p. 2), by emphasising particular messages, frames 'shape individual understanding and opinion concerning an issue'. Nelson and Kinder (1996, p. 1055) extended this argument and claimed that framing of issues also 'shapes public understanding of...the merits of alternative solutions'. As such, they claim that issue framing affects public opinion (Nelson & Kinder, 1996). This approach to mass media framing supports the proposal that mass media have an impersonal connection between principals and agents.

To explore this connection, this study is examined through media coverage of the medical indemnity crisis in Australia. Since 2002, medical indemnity has been a significant issue for medical practitioners, the Federal government, and other stakeholders in Australia. In the first quarter of 2002, Australia's largest medical indemnity organisation, United Medical Protection (UMP), filed for bankruptcy, affecting negatively the legal protection of more than 60 percent of Australian doctors. In response, the peak medical profession's body, the Australian Medical Association (AMA) called for government assistance to protect their members against existing and future medical claims. To ensure their demands were met, general and specialist medical practitioners across Australia threatened and undertook strike action, crippling the nation's public and private healthcare system. In response, the Federal government rescued UMP to protect doctors against existing claims, and State governments changed personal liability and legal services advertising legislation in an attempt to reduce the number of future claims made against doctors. This public debate was waged between the Federal Health Minister and Australian Medical Association President.

In late 2003, new agents were appointed to these roles. A Federal Government Cabinet review saw Mr Tony Abbott move from the workplace relations portfolio to become the Federal Minister for Health. Dr William Glasson was elected President of the Australian Medical Association. These appointments saw both men become agents for the principals of voters and medical practitioners, respectively. This study selects the agent-principal relationship represented by Health Minister Tony Abbott and the general public. In representing the public's interests, the Minister is securing access to doctors and less taxpayer outlay for such services.

## **Sample**

The sample for this study is newspaper clippings, selected to represent “mass media” as they provide a detailed source of content from which to explore the research question. A search of the Lexis-Nexis database of major Australian newspapers identified 93 articles containing the words “Glasson” and “Abbott”, the two agents involved in the medical indemnity crisis. These two search keys were selected to examine an exchange relationship restricted to the medical indemnity issue.

Articles were clipped from 29 September to 10 October 2003 inclusive. The start date for media clippings was selected to identify the role changes associated with one agent's, Tony Abbott, appointment to a new Federal Government portfolio. The end date reflected the reporting of an outcome to negotiations between the two agents. Clippings included all national, capital city, and some major rural town newspapers including *The Australian*, *The Weekend Australian*, *The Courier-Mail*, *The Canberra Times*, *The Sydney Morning Herald*, *The Age*, and the *Newcastle Herald*.

### Data analysis and coding

Following the data collection and analysis process adopted by Simon and Xenos (2000), this study divided the sample into three content frames as used in previous research (Authors suppressed, 2004). First, an initial qualitative analysis of media coverage identified three “working frames” or broad content themes that reflected the consecutive development of the issue. These three content themes are: 1) Reporting of Federal Government Cabinet changes, 2) Negotiation of medical indemnity levies, and 3) establishment of medical indemnity taskforce. The first content frame reported changes to the Federal Government Cabinet, more specifically, the appointment of Mr Tony Abbott as Minister of Health. Within a few days of the announcement, the second content frame reported the negotiation between Abbott and the Australian Medical Association President Dr William Glasson over medical indemnity levies issued to doctors across Australia. The third content frame reported Abbott's decision to establish and lead a medical indemnity taskforce to address and resolve the concerns of various stakeholders.

Data were coded against an instrument that captured mass media reporting of process, characteristic, and institutional-based trust production. Operational definitions for each code are based on Zucker's (1986) research. To guide the coder, specific descriptions and examples for each trust production method, described in Table 1 below, were developed.

**Table 1:** Guide for trust production codes

Trust production method	Descriptions
Process	<ul style="list-style-type: none"> <li>Information about prior exchanges/histories is obtained through exchange</li> <li>Each exchange partner has clear expectations for the other</li> <li>Trust is signalled through the use of symbols, for example, through reputation and branding</li> </ul>
Characteristic	<ul style="list-style-type: none"> <li>Information relating to social similarity through individual characteristics such as family background, gender, ethnicity are used as an index of trust</li> </ul>
Institutional	<ul style="list-style-type: none"> <li>Professional certification signals trust at an individual level</li> <li>Adoption of innovations or formalisation of procedures signals trust at an organisational level</li> </ul>

	<ul style="list-style-type: none"> <li>• Intermediary mechanisms such as escrows and contracts create trust</li> </ul>
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Reference: Zucker (1986)

## Limitations

Although similar to other news framing studies, the timeframe for this study limits a detailed exploration of trust production. Further, investigation of mass media's role in trust production is limited only to those principal-agent cases deemed newsworthy by the mass media.

## Results

### *How does mass media reporting of agents produce trust in principal-agent relationships?*

This exploratory research showed that media produce trust using process, characteristic, and institutional methods. Across the 93 media clippings, 54 articles framed process-based trust information, two articles framed characteristic-based trust information, and 46 articles framed institutional-based trust information. Each method is discussed below.

The mass media served as a secondary information source that produced process-based trust. Process-based trust, which is not readily transferable, is based on reputation and branding as well as expectations for an exchange (Zucker 1986). The mass media established the reputation or brand for the agent, Health Minister Tony Abbott. The mass media's framing of his reputation as a 'political bruiser' coupled with his 'can-do' approach was based largely on his previous role as Minister for Workplace Relations and Employment. Articles also established expectations for his actions in negotiations with key health stakeholders. The reporting of these expectations as well as confirmation of meeting these expectations is illustrated in Table 2.1.

**Table 2.1:** The production of process-based trust

Process-based trust	Case examples
Reputation/branding	<ul style="list-style-type: none"> <li>• The government hard man, a key ally of Prime Minister John Howard...</li> <li>• Trusted confidant of the Prime Minister and certainly a spear carrier</li> <li>• He's a head-kicker</li> <li>• ...notorious bruising debating style...</li> <li>• Mr Abbott arrives from his union-busting activities as Workplace Relations Minister</li> <li>• Mr Abbott's tough approach to workplace reform meant union leaders were happy to see the back of him</li> <li>• Renowned political bruiser Tony Abbott will be guided by a social conscience to fix the ailing health system.</li> <li>• Mr Abbott should also know that enhancing his reputation as a "can-do" politician will be less important to voters than the philosophy he will bring to his new position.</li> </ul>

Expectations	<ul style="list-style-type: none"> <li>• The AMA looks forward to working with Mr Abbott in the lead-up to the next election</li> <li>• ...we need somebody who is going to stand up for the patients of Australia</li> <li>• ...Mr Abbott's fighting instinct would win a better deal for patients</li> </ul>
Meeting expectations	<ul style="list-style-type: none"> <li>• He [Abbott] had to be seen to act. By giving doctors a bit of slack Abbott has won some goodwill with the profession that he'll need to help solve the Government's other health problem, the rising cost of visiting a doctor.</li> <li>• "We're not in the business of being ideological, we're in the business of solving problems, we're in the business of fixing difficult issues," he [Abbott] said.</li> </ul>

Interestingly, in addition to reporting trust production methods, data revealed evidence for the production of distrust. In reporting the actions and decisions of Health Minister Abbott, the agent, the mass media questioned both his decisions and decision-making ability against his established reputation (see Table 2.1). This disagreement with established roles was analysed as the antithesis of process-based trust production. Although only located within 10 articles, the mass media framed negatively the process-based roles of the agent (see Table 2.2).

**Table 2.2:** Changes to the reputation and branding of the agent

Process-based trust	Case examples
Changes to reputation/branding	<ul style="list-style-type: none"> <li>• Tony Abbott's transformation from political headkicker to a caring, listening Mr Fixit started yesterday. He did it by casting off his confrontationalist style and talking to the doctors.</li> <li>• "Tony Abbott is supposed to be the tough man of the federal government. Then what he out to do is use that toughness to get a result."</li> <li>• Mr Abbott was close to conceding the doctors' two key demands after twice meeting with AMA president...</li> <li>• ...Tony Abbott far from playing a head-kicker role is all consultation and compromise...</li> <li>• The former boxer...immediately found himself acting as referee in a complex fight about the right way forward for medical indemnity in Australia's health care system.</li> </ul>

Shortly after the mass media reported inconsistencies in the agent's actions (see Table 2.2), the media commented on a second role reification, which saw the agent return to a reputation or brand consistent with initial expectations (see Table 2.1). Table 2.3 illustrates mass media reframing of the agent's reputation and brand.

**Table 2.3:** Reversal of reputation and branding of the agent

Reversal of reputation/branding change	<ul style="list-style-type: none"> <li>• ...Tony Abbott was heading for a showdown with Sydney's 2000 rebelling public hospital doctors last night, insisting he would make no concessions "under duress" on the escalating medical indemnity dispute.</li> <li>• ...may have toughened the stance by Mr Abbott, who had taken a conciliatory approach</li> <li>• "No government submits to ultimatums from any group no matter how important. Governments have to make decisions in the national interest and not the medical interest." [Abbott]</li> </ul>
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Following from the significant number of articles that framed process-based trust, only two articles referred to characteristic-based trust production. Both of these articles identified the agent's religion and are illustrated in Table 3 below.

**Table 3:** The production of characteristic-based trust

Characteristic-based trust	Case examples
Religious affiliation	<ul style="list-style-type: none"> <li>Ironically, given his conservative social views and Catholicism</li> <li>...staunch Catholicism...</li> </ul>

The mass media also produced trust using institutional-based methods. First, this was achieved through the media's framing of the agent's professional roles. The media produced institutional trust by establishing the agent's previous education, training, and professional positions. Second, the media's reporting of two key decisions of the agent were coded as intermediary mechanisms of institutional based trust. According to Zucker (1986, p. 64) intermediary mechanisms 'rest on the legitimate concern that the transaction may not be completed or may fail to produce expected return, through no fault of either party involved in the exchange'. During the medical indemnity negotiation, the agent invoked two such intermediary mechanisms, a moratorium and a taskforce, to avoid stalling the negotiation and protect principals' interests. The production of institutional-based trust is outlined below.

**Table 4:** The production of institutional-based trust

Institutional-based trust	Case examples
Professional roles	<ul style="list-style-type: none"> <li>The former journalist and trainee priest...</li> <li>Prime Minister Howard's reshuffle elevated former Rhodes Scholar, boxer, journalist, concrete plant manager and Employment and Workplace Relations Minister Tony Abbott to the job.</li> </ul>
Intermediary mechanism I (moratorium)	<ul style="list-style-type: none"> <li>Yesterday, Abbott announced an 18-month moratorium on incurred but not reported claims (INBR) levies in excess of \$1,000.</li> <li>Mr Abbott said his concessions, which were recommended to him by outgoing Health Minister Kay Patterson, were a "circuit-breaker" that should convince surgeons to stay on.</li> </ul>
Intermediary mechanism II (taskforce)	<ul style="list-style-type: none"> <li>The federal government...offered further concessions to doctors, including a temporary reprieve from the indemnity levy in a bid to end an insurance crisis affecting much of the medical fraternity.</li> <li>...Abbott had agreed to head a task force into medical indemnity insurance</li> </ul>

### ***Does trust production change over the course of news reporting of agents?***

This research question was examined by comparing mass media framing of trust production across the three content frames (see Table 5). The first content frame, reporting of Federal Government Cabinet changes, was the only one to capture all three methods of trust production, as expected in media reporting of the introduction of a new Federal Minister. The second content frame, negotiation of medical indemnity levies contained more clippings than the first frame. This frame saw little change in the use of process-based trust but some increase in the use of information to produce institutional-based trust. The third content frame, establishment of medical

indemnity taskforce, showed some changes in the use of process and institutional based trust but these must be considered in light of the small number of media clippings ( $N=6$ ).

**Table 5:** Trust production trends

	Trust production method		
	Process-based	Characteristic-based	Institutional-based
<b>Content frame 1</b> ( $N=30$ )	18	2	12
<b>Content frame 2</b> ( $N=57$ )	32	0	34
<b>Content frame 3</b> ( $N=6$ )	4	0	2

### *Discussion and implications*

In principal-agent relationships, trust builds and is used in different ways. This paper has explored how the mass media can play a role in establishing trust in such relationships using process, characteristic, and institutional-based methods of trust production.

In reporting this production of trust, the data revealed two points. Firstly, personal information, such as that contained within process and characteristic based trust, can be conveyed through non-personal media at very little cost. This supports Zucker's (1986, p. 62) argument that exchange partners must recognise the time and effort costs associated with direct measures of process-based trust and 'attempt to signal trust in a transaction through the use of symbols'. Further, Nooteboom (2003, p. 22) argues that management should consider and take into account how 'decisions, forms of contracting, monitoring, communication, events, procedures, forms of punishment and reward can affect the development of trust'. Secondly, the framing of process-based information can also signal and produce distrust. In reporting the issue, the mass media questioned the agent's decisions and actions against his usual reputation for managing issues. According to Thomas (1998, p. 185), 'trust can also be lost when role expectations are in flux'. The mass media reporting of such role inconsistencies also relates to its role as a guardian of trust (Patel & Everett 2004).

The literature suggests that over time, trust in principal-agent relationships requires and values different types and sources information (Bachmann 1998, Beccerra & Gupta 1999, Child 1998, Lane 1998, Nooteboom 2003, Shapiro 1987, Singh & Sirdeshmukh 2000, Zucker 1986). The mass media framing of trust production methods, within this study, provides little evidence to comment on this claim. Although all three methods of trust production, process, characteristic, and institutional trust were framed within the clippings, the use of process-based trust information was used consistently across all content frames. To address this research question, further research involving agents and principals should be conducted.

Additionally, further research should be undertaken to ascertain principals' use of the mass media as an information source in principal-agent relationships. This research reports on impersonal trust production between two individuals, namely principals and agents. Further study should identify and understand principals' perceptions of trust in institutions to which agents belong. This study has described how the mass

media, as an impersonal communication tool, can produce trust and therefore make a positive difference in principal-agent relationships.

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